

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 PA-01 PRS-01

NSC-05 SS-15 STR-04 CEA-01 /089 W

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FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2715

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY TOKYO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. (ALL FOLLOWING FIGURES ARE MILLIONS OF DOLLARS UNLESS OTHERWISE STATED.) BALANCE OF PAYMENTS DURING JULY SHOWED RECORDED DEFICIT OF \$762.7. 1975 BALANCE OF PAYMENTS FOR FIRST SEVEN MONTHS SHOWED RECORDED DEFICIT OF \$1,264.4. DURING JULY REPAYMENT OF EUROMARKET COMPENSATORY LOANS TOT- ALLED \$500.0, BRINGING TOTAL OF SUCH PAYMENTS DURING FIRST

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SEVEN MONTHS TO \$920.0. THUS, SEVEN-MONTH DEFICIT ADJUSTED

TO EXCLUDE THESE REPAYMENTS WAS \$344.4. IN PERIOD AUGUST 1-21 BANK OF ITALY (BOI) MARKET INTERVENTION RESULTED IN APPROXIMATE NET BALANCE BETWEEN PURCHASES AND SALES OF FOREIGN EXCHANGE. END SUMMARY.

2. MONETARY MOVEMENTS DATA FOR JULY RECORDED DEFICIT OF \$762.7. BOI FOREIGN CURRENCY RESERVES DECLINED BY \$1,107.0. SDR HOLDINGS DROPPED \$6.3. BOI SHORT-TERM FOREIGN LIABILITIES INCREASED BY \$12.6 AND MEDIUM-AND LONG-TERM NET LIABILITIES WERE REDUCED BY \$89.0. COMMERCIAL BANKS REDUCED THEIR NET FOREIGN LIABILITIES BY \$274.2. DURING JULY REPAYMENTS ON EUROMARKET COMPENSATORY LOANS TO IMI TOTALLED \$500.0. ON AUGUST 21 BOI MADE NET PURCHASES OF ABOUT \$100.0 IN FOREIGN CURRENCY MARKETS, BRINGING NET INTERVENTION FOR FIRST 21 DAYS OF AUGUST TO APPROXIMATELY ZERO.

3. RECORDED BALANCE OF PAYMENTS CUMULATIVE DEFICIT FOR FIRST SEVEN MONTHS OF 1975 OF \$1,264.4 WAS FINANCED BY DECLINE IN BOI FOREIGN CURRENCY RESERVES OF \$1,33.6, DROP IN SDR'S OF \$55.6 AND INCREASED NET SHORT-TERM LIABILITIES OF \$22.4. MEDIUM- AND LONG-TERM NET LIABILITIES DECLINED BY \$313.5. COMMERCIAL BANKS NET FOREIGN LIABILITIES IN SAME PERIOD ROSE BY \$166.5. ADJUSTED BALANCE OF PAYMENTS DEFICIT (EXCLUDING REPAYMENT OF EUROMARKET COMPENSATORY LOANS) WAS \$344.4. HEAD OF BOI EXCHANGE OPERATIONS, ERCOLANI, INDICATED THAT, WITH JULY \$500.0 REPAYMENTS, ALL OF SCHEDULED EUROMARKET COMPENSATORY LOAN AMORTIZATION PAYMENTS FOR 1975 HAVE NOW BEEN MADE.

4. PRELIMINARY BALANCE OF PAYMENTS DATA FOR FIRST HALF OF 1975 IS NOW AVAILABLE. TABLE BELOW SHOWS DATA PRESENTED ON ADJUSTED PAYMENTS BASIS (PAYMENTS BASIS EXCEPT FOR 5.5 PERCENT ADJUSTMENT TO CONVERT IMPORTS FROM C.I.F. TO F.O.B. BASIS) AND ON "ECONOMIC" BASIS. LATTER IS EMBASSY ESTIMATE OF STANDARD BALANCE OF PAYMENTS PRESENTATION WHICH WILL EVENTUALLY BE PREPARED BY BOI.

5. (BALANCE OF PAYMENTS, FIRST HALF 1975 (MILLIONS OF DOLLARS)

ADJUSTED PAYMENTS BASIS (P)	ECONOMIC BASIS (E)
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EXPORTS	16,684	16,249
IMPORTS	17,355	17,355
TRADE BALANCE	-671	-1,106
SERVICES	-6#8	257
UNILATERAL TRANSFERS	452	252
CURRENT ACCOUNT	-827	-597
CAPITAL		
PRIVATE LOANS/INVEST.	992	592

COMMERCIAL CREDIT	-257	-87
PUBLIC LOANS	115	150
CAPITAL ACCOUNT	850	655
ADJUSTMENTS	-77	-112
DEFICIT (ADJUSTED)	-54	-54

(P) - PRELIMINARY

(E) - EMBASSY ESTIMATE

NOTE: EUROMARKET COMPENSATORY LOAN REPAYMENTS OF \$420 MILLION HAVE BEEN EXCLUDED FROM CAPITAL ACCOUNT. RECORDED DEFICIT, INCLUDING THESE REPAYMENTS, WAS \$474 MILLION.

6. ON AUGUST 21 FOLLOWING FINANCIAL RATES PREVAILED: LIRA SPOT EXCHANGE RATE WAS 667.65 LIRE PER DOLLAR; THREE-MONTH FORWARD RATE WAS 678.45 LIRE PER DOLLAR; BLACK MARKET RATE IN MILAN WAS 717 LIRE PER DOLLAR, THREE-MONTH EUROLIRA INTEREST RATE WAS 13.25 PERCENT; LIRA INTERBANK 48-HOUR RATE WAS 8.94 PERCENT AND LIRA INTERBANK THREE-MONTH RATE WAS 10.25 PERCENT. BOI IS NOW PUBLISHING NEW MEASUREMENT OF WEIGHTED AVERAGE DEVALUATION OF LIRA WITH MAIN CHANGE DUE TO USE OF 1974 TRADE DATA RATHER THAN 1972 TRADE DATA FOR WEIGHTING INDIVIDUAL CURRENCIES. ALSO, BOI NOW PREPARES SEPARATE MEASUREMENTS OF DEVALUATION OF LIRA AGAINST DOLLAR AND AGAINST EC CURRENCIES, IN ADDITION TO MEASUREMENT OF LIRA DEVALUATION AGAINST ALL OF FIFTEEN CURRENCIES USED IN COMPUTATION. (SEE ROME A-395 OF AUGUST 22, 1975) ON AUGUST 21 NEW MEASUREMENTS OF DEPRECIATION OF LIRA AGAINST ALL FIFTEEN CURRENCIES SINCE FEBRUARY 9, 1973 BASE PERIOD WAS 19.79 PERCENT; DEPRECIATION AGAINST DOLLAR WAS 12.98 PERCENT; AND DEPRECIATION AGAINST EC CURRENCIES WAS 24.69 PERCENT. VOLPE

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